

TESTIMONY OF SCOTT A. GILLIAM
SECRETARY & DIRECTOR OF GOVERNMENT RELATIONS
THE CINCINNATI INSURANCE COMPANIES
BEFORE THE SENATE COMMITTEE ON COMMERCE, SCIENCE AND TRANSPORTATION ON THE NATURAL
DISASTER PROTECTION
AND INSURANCE ACT OF 1999 (S. 1361)
APRIL 13, 2000

One Page Summary of Submitted Testimony

Introduction. The Cincinnati Insurance Companies market property and casualty insurance in 30 states through an elite corps of local independent insurance agencies. Our parent company, Cincinnati Financial, is among the top 20 publicly traded property and casualty insurers based on 1999 consolidated revenues of \$2.1 billion.

The S. 1361 Proposal. We do not disagree that there may be a need for high-level federal involvement in excess of private market capacity to ensure that Americans are provided with appropriate insurance protection for losses arising from hurricanes, earthquakes and other natural disasters. However, we believe that S. 1361, in its current form, falls short in a number of critical respects.

Low Trigger And New Unfunded Federal Liability. Our primary concern with S. 1361 is its trigger for payment of losses, a trigger which is far below existing industry capacity. Equally distressing is the fact that S. 1361 will expose taxpayers to new unfunded federal liability and has the potential of creating a crisis similar to what we saw in the savings and loan industry not too many years ago.

Government Competition With The Private Market. We are also very concerned that S. 1361 will supplant the private market and stifle private sector development of new and innovative approaches to the problem of protecting Americans against catastrophic risk.

Proliferation Of State Insurance Programs And Anti-Competitive Effects. S. 1361 will also encourage the development and proliferation of underfunded and overexposed state insurance programs by making low-cost federal reinsurance available to these programs at very low trigger levels. Another concern is the anti-competitive effect S. 1361 may have on existing markets.

Commercial Risks. S. 1361 does not provide coverage for commercial losses despite the fact that both personal and commercial lines of insurance coverage are affected by catastrophic events. There is simply no logical reason why commercial risks should be excluded from S. 1361.

State Regulation. S. 1361 will further endanger state regulation of the business of insurance.

Determining An Appropriate Trigger Level – Two Approaches For Consideration. As a starting point for determining an appropriate trigger level, we believe it makes sense to look at the magnitude of past catastrophe losses handled by the insurance industry. With the industry's current policyholder surplus at an all-time high of \$330 billion plus, which is more than twice what it was at the time the industry paid combined losses of \$28 billion for Andrew and Northridge in the early 1990s, we believe the industry is more than equipped to handle a \$35 billion catastrophe without federal involvement. For those who view the selection of a static trigger as problematic, another approach which has been given consideration is a percentage trigger based on industry surplus or individual insurer surplus.

S. 1914 – The Private Sector Alternative to S. 1361. There is a viable alternative to S. 1361. Under S. 1914, the "Policyholder Disaster Protection Act of 1999," property-casualty insurers would be permitted to set aside catastrophe reserves on a tax-deferred basis to better prepare for mega catastrophes, like most other countries in the industrialized world are already permitted to do. S. 1914 was introduced in the Senate last November by Senators Connie Mack and Kay Bailey Hutchison.